

# **Wickham Investment Counsel Inc.**

**Quarterly Review**

**December 2020**

## **WINNER TAKES ALL**

**Earnings growth drives stock prices and, ultimately wealth creation over time. Consistent, sustained, compounding earnings growth is most valuable overall. Markets constantly look forward and discount earnings growth over many years to determine the intrinsic value of a stock today. The market will sometimes misprice earning growth and be tricked by cyclical, short-term earnings bounces, fashions and trends. However, eventually, it gets it right.**

**In truth, there are few massive, long-term wealth creators, possibly less than 1,000 firms in the investing universe. On the other hand, there are many, many thousands of average or sub-average companies that destroy investor value over time. They struggle to earn their cost of capital and are ravaged by the competitive and disruptive nature of business conditions. A small number of firms in their respective industries are the major wealth creators, able to grow their revenues and earnings by 15 – 20% per annum. Think of the long-term winners like Apple, Microsoft, Visa, United Health Care and Amazon. In Canada, Shopify has demonstrated explosive growth as its e-commerce software is now used by more than one million businesses in 175 countries. Shopify is now the second largest e-commerce platform in the US behind Amazon and the most valuable publicly traded company in Canada with a +5% weighting in the S&P/TSX Composite Index.**

**As well as e-commerce, interesting opportunities are available in digital payments, genomics and innovative health care, digital enterprise and cloud computing, climate change, emerging consumer opportunities, streaming, artificial intelligence and gaming. Tesla, the high flying, autonomous electric car and solar panel maker has sky rocketed to become the world's most valuable automaker and has joined the S&P 500 Index. In fact, Tesla is worth more than Toyota, VW, GM, Ford, Fiat Chrysler, Nissan and Daimler combined. The winner takes all. Time will tell if the market is right on this one.**

**Does the winner keep it all? Social media giant Facebook may be required to divest of its WhatsApp and Instagram assets. The US Federal Trade Commission has brought an anti-trust suit against Facebook, which is claiming that they buy competitors to eliminate threats to their on-line advertising monopoly. Google is under attack in Europe and Australia for wielding vast influence over segments of the economy. In China, the market regulator recently opened an anti-monopoly investigation into the Chinese e-commerce behemoth Alibaba Group Holdings Ltd. They are claiming that Alibaba is taking advantage of its dominance, excluding rivals and may be harming consumer interests. In particular, Alibaba's Ant Group, which started as Alipay platform for on line shopping, now issues, small loans, insurance and investment savings to its 730 million monthly users in China. Ant may need to spin out those rapidly growing businesses or meet greater regulatory demands to reign them in.**

## US Dollar Weakness

The US dollar declined by 6% against a basket of its peers in 2020. Many think this trend will continue this year. The primary driver is a change in Federal Reserve policy. The US central bank has adopted average inflation targeting and has signaled that it is open to generating more inflation. The US Treasury has been printing huge amounts of debt because of the pandemic shutdowns. Its balance sheet has jumped from \$3.7 Trillion to \$6.7 Trillion. Non-inflationary options, like tax increases or reduced government services to control the federal deficit are not popular politically. More inflation and the reduced real value of debt is more palatable to the electorate. A lower US dollar also helps exporters. At the same time, the Bank of Canada says it is not printing money to finance the Canadian Federal debt. If so, this could result in a further upward bias in the value of the Canadian dollar, which rose by 2.3% versus the US dollar in 2020.

	Dec 31, 2013	Dec 31, 2014	Dec 31, 2015	Dec 31, 2016	Dec 31, 2017	Dec 31, 2018	Dec 31, 2019	Dec 31, 2020	% Change Dec-Dec
<b><u>Stock Market Indices</u></b>									
S&P/TSX Comp.	13,622	14,632	13,010	15,288	16,209	14,323	17,063	17,433	2.17%
Dow Jones Ind.	16,577	17,823	17,425	19,763	24,719	23,328	28,538	30,607	7.25%
S&P 500	1,848	2,059	2,044	2,239	2,674	2,507	3,231	3,756	16.25%
Nasdaq Comp.	4,177	4,736	5,007	5,383	6,903	6,635	8,973	12,888	43.63%
<b><u>Commodities</u></b>									
Gold - US\$	1,202	1,184	1,060	1,252	1,309	1,281	1,523	1,895	24.43%
Crude Oil WTI - US\$	98.42	53.27	37.04	53.72	60.42	45.41	61.06	48.52	-20.54%
Natural Gas - US\$	4.25	2.91	2.35	3.74	2.95	2.94	2.19	2.54	15.98%
<b><u>Currencies</u></b>									
€ in Cdn \$	1.47	1.41	1.50	1.42	1.50	1.56	1.46	1.56	6.85%
£ in Cdn \$	1.76	1.82	2.04	1.66	1.69	1.74	1.72	1.74	1.16%
US\$ in Cdn \$	1.06	1.16	1.38	1.34	1.26	1.37	1.30	1.27	-2.31%
<b><u>Interest Rates</u></b>									
Cdn Prime rate	3.00	3.00	2.70	2.70	3.20	3.95	3.95	2.45	-37.97%
US Prime rate	3.25	3.25	3.50	3.50	4.50	5.50	4.75	3.25	-31.58%
Cdn 10 Yr bond	2.78	1.79	1.41	1.72	2.04	1.95	1.64	0.70	-57.32%
US 10 Yr bond	3.03	2.17	2.27	2.44	2.40	2.69	1.92	0.93	-51.56%

Source: The Globe & Mail